

Message Text

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ACTION COME-00

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TO SECSTATE WASHDC PRIORITY 1237

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E.O. 11652: N/A

TAGS: BEXP, HU

SUBJ: MEMCONS - EXECUTIVE LEVEL TRADE MISSION

REF: STATE 86948##

SUMMARY: DEPT SHOULD NOW HAVE MEMCONS OF KALLOS, SZITA, HUSZAR, PLUS FIRST MEETING WITH BIRO WHICH WERE POUCHED APRIL 24, DIMENY SESSION FORWARDED APRIL 29. REPORTS OF FALUVEGI, FEKETE, HETENYI, SZEKER, CSIKOS-NAGY, AND SECOND BIRO ODUKING PREPARED IN DRAFT. HOWEVER, ONLY ACCOUNT OF SECOND BIRO MEETING CONTAINS MATERIAL

DIRECTLY TOUCHING UPON AMERICAN-HUNGARIAN RELATIONS; OTHER SESSIONS CONCERNED THEMSELVES PRINCIPALLY WITH EXPLANATIONS OF HUNGARIAN ECONOMIC SYSTEM. THEREFORE, WE ARE ONLY FORWARDING SUMMARY OF SECOND BIRO MEETING AND TRUST THAT THIS, TOGETHER WITH POUCHED MEMCONS, WILL BE SUFFICIENT FOR ZARB'S DEBRIEFINGS. END SUMMARY.

2. SUMMARY OF SECOND BIRO MEETING: IN SECOND MEETING WITH BIRO, ZARB SUMMED UP IMPRESSIONS HE HAD GATHERED DURING PREVIOUS 10 DAYS IN HUNGARY. HE TOLD BIRO THAT BOTH HE AND BUSINESS PARTICIPANTS IN MISSION FELT THAT THERE WAS A REAL OPPORTUNITY FOR SIZEABLE INCREASE IN TRADE BUT IT WOULD TAKE TIME TO BSKJD THEM UP. IT WAS NECESSARY TO TRY AND CONCENTRATE OUR EFFORTS ON THOSE SPECIFIC AREAS OF

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THE HUNGARIAN ECONOMY WHERE COOPERATION WITH AMERICAN

COMPANIES WOULD BE MOST PRODUCTIVE. IN AREAS WHERE AMERICAN FIRMS HAD NOT BEEN REPRESENTED, ZARB PROMISED HE WOULD TAKE STEPS TO INFORM LEADING AMERICAN CORPORATIONS OF THE POSSIBILITIES WHICH HUNGARY MIGHT OFFER. HE ALSO FELT IT WOULD BE USEFUL TO EXPLORE

POSSIBILITY OF ARRANGING VISIT TO US BY LEADING HUNGARIAN CORPORATE EXECUTIVES. IN ADDITION HE THOUGHT IT WOULD BE USEFUL TO DEVELOP A SIMPLE METHOD WHEREBY HUNGARIAN COMPANIES MIGHT BRIEFLY OUTLINE THEIR NEEDS ON A SHORT STANDARD FORM WHICH COULD BE REPRODUCED AND PASSED ALONG TO AMERICAN FIRMS. CONCLUDING, ZARB SAID THAT UPON RETURNING TO WASHINGTON HE WOULD WRITE A LETTER TO BIRO CONTAINING A SERIES OF PROPOSALS TO HELP IMPROVE OUR TRADE RELATIONS.

3. BIRO THANKED ZARB FOR HIS REMARKS AND ADDRESSED HIMSELF IMMEDIATELY TO RECENT GOH PERSONNEL CHANGES. HE STATED THAT IN SPITE OF THESE SWITCHES NO BASIC CHANGES IN ECONOMIC POLICY WERE FORESEEN DURING THE NEXT FIVE-YEAR PLAN. WHILE WELCOMING ZARB'S INTEREST IN DEVELOPING ECONOMIC RELATIONS, BIRO REMINDED HIM THAT THESE RELATIONS COULD NOT DEVELOP IN A WAY WHICH WOULD BE AT ODDS WITH DEVELOPMENTS IN AMERICAN-SOVIET RELATIONS. POSSIBILITIES FOR SHORT-TERM JUMPS IN TRADE WERE LIMITED BECAUSE OF LACK OF MFN AND NEED FOR HUNGARIAN COMPANIES TO CALCULATE COSTS. HOWEVER, EXISTING TARIFF BARRIERS WOULD NOT COMPLETELY EXCLUDE WIDENING OF COOPERATION AND BOTH SIDES MUST ENCOURAGE THEIR BUSINESSMEN TO MAKE CONTACTS WITH ONE ANOTHER, LAYING FOUNDATION FOR THE POST-MFN PERIOD. AS A STARTER, FIRMS SHOULD ESTABLISH CONTACT ON A TECHNICAL LEVEL RATHER THAN ON A SALES BASIS. FINANCING ALSO VERY IMPORTANT AND BIRO SAID THAT US SHOULD OFFER MORE ADVANTAGEOUS CREDITS THAN ITS WESTERN COMPETITORS SINCE IT WAS NEW ELEMENT IN MARKET. BY EMPHASIZING COOPERATION AND GRANTING FAVORABLE CREDITS OBSTACLE OF MFN COULD BE CIRCUMVENTED DURING SHORT AND MEDIUM TERM.

4. ON QUESTION OF LOCAL REPRESENTATION FOR US COMPANIES, BIRO AGAIN ACKNOWLEDGED THAT THIS WAS A DIFFICULT QUESTION. IF AMERICAN FIRMS, FOR EXAMPLE, WERE GIVEN PERMISSION TO OPEN OFFICES IN HUNGARY, FAR GREATER NUMBERS OF WEST EUROPEAN COMPANIES WOULD INSIST UPON BEING GRANTED SIMILAR PRIVILEGES. LIMITED OFFICIAL USE

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HE CONCEDED, HOWEVER, THAT COMPANIES OF OVERSEAS COUNTRIES SUCH AS US AND JAPAN FACE SPECIAL DIFFICULTIES IN EFFECTIVELY TRYING TO SERVE HUNGARIAN MARKET AND SAID HE WOULD RE-EXAMINE THIS QUESTION AGAIN WITH A FEW TO PERHAPS MAKING SPECIAL EXCEPTIONS FOR SUCH FIRMS. AN AMERICAN-HUNGARIAN TRADE AGREEMENT, WHEN SIGNED, MIGHT, FOR EXAMPLE, CONTAIN A PROVISION WHICH WOULD ENABLE US COMPANIES TO HAVE PERMANENT REPRESENTATION HERE. ON QUESTION OF FOREIGN

INVESTMENT, BIRO PERSISTED IN HIS NEGATIVE LINE, SAYING THAT
QUESTIONS OF CONVERTIBILITY AND PRICE STRUCTURE POSE FORMIDABLE
PROBLEMS AND THAT OTHER "LESS COMPLEX" FORMS OF COOPERATION
SHOULD BE CONSIDERED FIRST.
MUDD

NOTE BY OCT: ## REFERENCE INCORRECT.

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